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**DOMINION-SCOTTISH
INVESTMENTS
LIMITED**



Forty-First
ANNUAL REPORT
December 31, 1969

Board of Directors

W. A. ARBUCKLE, C.A.

Chairman of the Board

Montreal

J. K. MACDONALD

Toronto

J. G. HUNGERFORD, Q.C.

Toronto

J. G. S. GAMMELL, M.B.E., C.A.

Edinburgh, Scotland

THOMAS S. JOHNSTON

Toronto

W. J. R. GOVETT

London, England

JOHN L. SHORTLY, C.A.

Toronto

J. D. MUNCASTER

Toronto

Officers

W. A. ARBUCKLE

Chairman

J. K. MACDONALD

Deputy Chairman

ROBERT W. INGLIS, C.A.

Secretary-Treasurer

Managers

PEMBROKE MANAGEMENT LTD.

Head Office.....44 KING STREET WEST, TORONTO, ONTARIO

Shares Listed.....TORONTO STOCK EXCHANGE

Bankers.....BANK OF MONTREAL

Auditors.....RIDDELL, STEAD & CO.

Transfer Agent and Registrar.....THE ROYAL TRUST COMPANY

DIRECTORS' REPORT TO THE SHAREHOLDERS

ASSET VALUES

Reflecting declining stock markets, particularly in the U.S., the total assets of the Company, after adjusting for a reduction in borrowings, fell 10.7% during 1969. In this period, the Standard & Poor's 500 Stock Index declined by 11.4% and the Montreal Composite index by 3.5%.

After deducting the Bank Loan and the 5% Preference shares at their redemption price of \$52.50, the Net Asset Value per Common share was equivalent to \$19.68 as compared with \$22.92 at the preceding year-end.

Shareholders will also note that your Directors deemed it prudent last autumn to reduce the \$2,000,000 Bank Loan, which replaced the former \$2,000,000 Bond Issue on its maturity 1st July, 1969, to \$1,000,000 as shown in the Balance Sheet as at 31st December, 1969.

EARNINGS AND DIVIDENDS

Net income for 1969 amounted to \$274,234. After payment of preference dividends, the balance available for Common shareholders was \$124,234 or 17 cents per share. Net earnings for 1968 were 30 cents per Common share. The decline in net income is due partly to a reduction in gross revenue and partly to an increase in expenses. The drop in gross revenue is the result of adopting an investment policy which places a greater emphasis on long term growth while the increase in expenses is due to increases both in management fees and interest costs.

Your Directors, having in mind the desirability of maintaining meantime the basic dividend to the Common shareholders, declared Common dividends for the year in a total amount of 32 cents, the same as for 1968, although this meant encroaching on the balance of Retained Earnings to the extent of \$103,998.

INVESTMENT PORTFOLIO

At 31st December, 1969 the assets of the Trust were invested in the securities of 41 different companies. The portfolio is shown on pages 8 to 10 of this Report. At the close of 1969, approximately 23% of the Company's net assets was invested in United States securities.

REVIEW AND OUTLOOK

Restraint achieved by fiscal and monetary policies during 1969 is now showing up unmistakably in a loss of momentum for both the Canadian and the U.S. economies. Growth in production has virtually ceased and unemployment is rising. These policies, however, have yet to make any significant progress towards breaking the persistent rise in consumer prices. Fueled by the large number of labour negotiations that lie ahead, the wage-price spiral may again be much in evidence in 1970, particularly during the first half of the year.

The Bank of Canada and the Federal Reserve officials can thus be expected to continue a policy of restraint until the inflationary psychology has been muted and then to move only gently towards ease.

Corporate profits have been declining since the second quarter of 1969 and may remain under pressure at least until the third quarter of this year. By the end of 1970 there should be some evidence of rising corporate profits.

We can but rest on the somewhat cautious and guarded indications given you last year and express reluctance to predict the start of a major recovery. Until the Government becomes conscious of the effect of tight money on social priorities and the money supply is eased, no marked improvement in the Canadian economy is anticipated.

INVESTMENT POLICY

Our Managers and Investment Advisors, Pembroke Management Limited, are of the opinion that certain Canadian natural resource stocks will continue to be attractive as a result of important new developments. However, in both Canada and the U.S., the high growth rate, high price earnings multiple stocks appear vulnerable.

In addition to the natural resource issues, Pembroke's research efforts will continue to be focused on the moderately priced issues which are relatively immune to the business cycle or are poised for recovery in the event of any easing of monetary restraint. The U.S. market has experienced a much more severe decline than has been seen in Canada and now offers better values, but the implications of Ottawa's proposals on tax reform should allow the Can-

adian market to turn in an equally good performance.

SUTTON VENTURES LTD.

Sutton Ventures Ltd., the formation of which you were advised by letter last October, has made an initial investment for a total commitment of U.S. \$249,750 in Comma Corporation.

Comma, whose head office is in New Jersey, was organized in June, 1969, and started operations around the middle of December after raising \$3 million by the sale of 4,000 Convertible Preferred shares at \$750.00 to a limited number of Canadian and U.S. institutions. Comma plans to become a major factor in a new industry, computer maintenance, by providing maintenance service to owners of I.B.M. data processing equipment.

Sutton's remaining capital, approximately \$2,400,000 is on deposit with a Trust Company and a Chartered Bank. It is expected that this capital will be drawn down only gradually as suitable investment opportunities appear. Dominion Scottish has a participation of 24.5% in the capital of Sutton.

WHITE PAPER ON TAXATION

Much has already been said and written on the White Paper. Many of its implications are abhorrent to most investors although the imposition of a capital gains tax had been foreseen for some time. The White Paper does, however, recognize that special rules are required for Investment Trusts such as Dominion-Scottish which will receive most of its income from other "widely held Canadian corporations" so that Canadian shareholders in Dominion-Scottish should not pay more tax than they would if they had held such shares directly. Also, there is recognition that capital gains made by Trusts such as Dominion-Scottish should not be taxed twice in the hands of its Canadian shareholders.

However, the proposals, if adopted will render investment in U.S. equities less attractive in relation to Canadian stocks, hence they cannot but influence our future investment programme. In addition, there will be a proliferation of new tax forms, additional returns, additional bookkeeping and expense. Inasmuch as the Finance Minister has already indicated that there will be several modifications of the original proposals it is thought best to curb our criticisms until the time of the Annual Meeting when there should be a clearer indication as to Ottawa's final recommendations in this very important matter.

DIRECTORATE

Under the terms of the By-Laws, four directors are to be elected at the forthcoming Annual General Meeting.

The following gentlemen have signified their willingness to serve again on the Board and their names will be submitted for nomination at the forthcoming Meeting:

<u>Name</u>	<u>Term of Office</u>
J. G. S. Gammell, M.B.E., C.A.	2 years
J. G. Hungerford, Q.C.	2 years
Thomas S. Johnston	2 years
J. L. Shortly, C.A.	2 years

ANNUAL MEETING

The Annual Meeting of Shareholders has been called for Thursday, 30th April, 1970.

Both Preference and Common shareholders are cordially invited to attend. If you cannot attend, please send in your proxy.

On behalf of the Board

W. A. ARBUCKLE

Chairman

Toronto, Ontario

March 4, 1970

DOMINION-SCOTTISH INVESTMENTS LIMITED

(Incorporated under the laws of Canada)

BALANCE SHEET As at December 31, 1969

ASSETS

	1969	1968
Current Assets		
Cash and short-term deposit receipts	\$ 17,855	\$ 1,024,577
Accounts receivable	—	6,265
Due from brokers for securities sold	—	218,170
	<u>17,855</u>	<u>1,249,012</u>
Investments		
Investments at quoted market value	18,198,260	20,376,645
(cost 1969—\$15,243,877; 1968—\$12,919,413)		
	<u>\$18,216,115</u>	<u>\$21,625,657</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Bank loan (secured)	\$ 1,000,000	\$ —
Accrued expenses	12,225	16,638
Due to brokers for securities purchased	16,963	61,846
Accrued bond interest	—	40,000
Income taxes payable	4,149	11,168
	<u>1,033,337</u>	<u>129,652</u>
Funded Debt		
First collateral trust, Series "B" and "C" 4% bonds, due July 1, 1969	—	2,000,000
Shareholders' Equity		
Capital Stock —		
Preference —		
Authorized —		
76,730 5% cumulative, redeemable (at \$52.50) preference shares, par value \$50 each		
Issued —		
60,000 shares	3,000,000	3,000,000
Common —		
Authorized —		
1,200,000 common shares of no par value		
Issued —		
713,224 shares	2,979,493	2,979,493
Accumulated surplus on sale of investments	7,938,699	5,645,079
Retained earnings	310,203	414,201
Unrealized appreciation of investments	2,954,383	7,457,232
	<u>17,182,778</u>	<u>19,496,005</u>
Total shareholders' equity	<u>\$18,216,115</u>	<u>\$21,625,657</u>

On behalf of the Board:

W. A. ARBUCKLE, Director

J. K. MACDONALD, Director

DOMINION-SCOTTISH INVESTMENTS LIMITED

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Year Ended December 31, 1969

	1969	1968
Income		
Dividends from Canadian corporations	\$ 369,471	\$ 433,212
Dividends from Foreign corporations	128,992	111,718
Interest received	5,080	641
	<u>503,543</u>	<u>545,571</u>
Interest paid		
Bond interest	40,000	80,000
Bank interest	66,119	3,456
	<u>106,119</u>	<u>83,456</u>
Other Expenses		
Administrative expenses	26,880	25,848
Investment advisory and management fees	37,876	13,697
Directors' fees	13,741	12,082
Bank charges	2,810	3,274
Trustee, registrar, legal and audit fees	9,883	9,353
	<u>91,190</u>	<u>64,254</u>
Earnings before Income Taxes	306,234	397,861
Provision for Income Taxes	32,000	33,000
Net Earnings	\$ 274,234	\$ 364,861
Retained Earnings at Beginning of Year	414,201	427,572
	<u>688,435</u>	<u>792,433</u>
Deduct:		
Dividends paid —		
On preference shares at the rate of \$2.50 per share	150,000	150,000
On common shares at the rate of \$.32 per share	228,232	228,232
	<u>378,232</u>	<u>378,232</u>
Retained Earnings at End of Year	<u>\$ 310,203</u>	<u>\$ 414,201</u>

DOMINION-SCOTTISH INVESTMENTS LIMITED

STATEMENTS OF ACCUMULATED SURPLUS ON SALE OF INVESTMENTS, UNREALIZED APPRECIATION OF INVESTMENTS AND CHANGES IN NET ASSETS

For the Year Ended December 31, 1969

ACCUMULATED SURPLUS ON SALE OF INVESTMENTS

	1969	1968
Balance at Beginning of Year	\$ 5,645,079	\$ 5,066,398
Net Gain on Disposal of Investments	2,293,620	578,681
Balance at End of Year	<u>\$ 7,938,699</u>	<u>\$ 5,645,079</u>

UNREALIZED APPRECIATION OF INVESTMENTS

Balance at Beginning of Year	\$ 7,457,232	\$ 3,965,120
Net Increase (decrease) for the Year	(4,502,849)	3,492,112
Balance at End of Year	<u>\$ 2,954,383</u>	<u>\$ 7,457,232</u>

CHANGES IN NET ASSETS

Net Assets at Beginning of Year	\$19,496,005	\$15,438,583
Add		
Net income for year	274,234	364,861
Net gain on disposal of investments		
(proceeds 1969, \$9,707,069; 1968, \$6,546,535)	2,293,620	578,681
Increase (decrease) in unrealized appreciation of investments	(4,502,849)	3,492,112
	(1,934,995)	4,435,654
Deduct dividends paid on preference and common shares	378,232	378,232
Net increase (decrease) for year	(2,313,227)	4,057,422
Net Assets at End of Year	<u>\$17,182,778</u>	<u>\$19,496,005</u>

AUDITORS' REPORT

To the Shareholders
Dominion-Scottish Investments Limited

We have examined the balance sheet of Dominion-Scottish Investments Limited as at December 31, 1969 and the statements of earnings and retained earnings, accumulated surplus on sale of investments, unrealized appreciation of investments and changes in net assets for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
January 26, 1970.

RIDDELL, STEAD & CO.
Chartered Accountants.

DOMINION-SCOTTISH INVESTMENTS LIMITED

PORTFOLIO AS AT DECEMBER 31, 1969

PREFERRED SHARES (1.40% of total assets)

	Number of Shares	Market Value
Great Britain and Canada Investments (1968) Ltd.		
2nd Preference of \$2 p.v.	7,425	\$ 9,281
Overland Express Ltd. Non-Voting Second Pref.	60,000	246,000
		<u>\$ 255,281</u>

COMMON AND CONVERTIBLE PREFERRED SHARES (98.68% of total assets)

BANKS (8.38% of total assets)

Bank of Montreal	15,000	\$ 253,125
Canadian Imperial Bank of Commerce	20,000	452,500
Royal Bank of Canada	15,000	337,500
Toronto Dominion Bank	20,000	480,000
		<u>\$ 1,523,125</u>

FINANCIAL (7.99% of total assets)

Great Britain and Canada Investments (1968) Ltd.	11,000	\$ 187,000
National Trust Co. Ltd.	30,000	615,000
Sutton Ventures Ltd.	65,000	650,000
		<u>\$ 1,452,000</u>

FOOD AND BEVERAGE (6.38% of total assets)

T. G. Bright & Co., Limited	7,500	\$ 652,500
Growers Wine Co. Ltd., Class "B"	30,000	52,500
Walker-Gooderham & Worts Ltd., Hiram	10,000	455,000
		<u>\$ 1,160,000</u>

ELECTRICAL EQUIPMENT AND ELECTRONICS (9.08% of total assets)

Daniel Woodhead Co.	30,000	\$ 475,134
International Business Machines Corp.	1,400	547,935
Teledyne Inc.	15,000	628,144
		<u>\$ 1,651,213</u>

COMMON STOCKS (Continued)

	Number of Shares	Market Value
GENERAL MANUFACTURING (6.88% of total assets)		
Dominion Glass Co. Ltd.	30,000	\$ 570,000
I.W.C. Industries Ltd.	87,000	352,350
Toromont Industrial Holdings Ltd. Series "A" Conv. Pfd.	20,000	125,000
Toromont Industrial Holdings Ltd.	150,000	195,000
Toromont Industrial Holdings Ltd. "Warrants"	40,000	8,000
		<u>\$ 1,250,350</u>

MERCHANDISING (6.00% of total assets)

Peoples Credit Jewellers Limited	8,475	\$ 177,975
Peoples Department Stores Ltd.	40,000	690,000
Tamblyn Ltd., G.	8,000	224,000
		<u>\$ 1,091,975</u>

METALS AND MINING (27.45% of total assets)

Anaconda Company	10,000	\$ 323,467
British Columbia Molybdenum Ltd. "Warrants"	10,000	30,000
Crow's Nest Industries Ltd.	12,990	662,490
Dynasty Explorations Ltd.	40,000	620,000
Hollinger Mines Limited	20,000	555,000
International Nickel Co. of Canada Ltd.	15,000	705,000
Kaiser Resources Ltd.	40,000	740,000
Molybdenum Corp. of America	10,500	359,370
Phelps Dodge Corp.	10,000	539,559
Rio Algom Mines Ltd.	25,000	456,250
		<u>\$ 4,991,136</u>

PAPER AND FOREST PRODUCTS (11.62% of total assets)

Abitibi Paper Co. Ltd.	30,000	\$ 375,000
Columbia Cellulose Co. Ltd., \$1.20 Cum. Red. Conv. Pref.	10,000	180,000
MacMillan, Bloedel Ltd.	20,000	675,000
Price Company Limited	30,000	502,500
Revelstoke Building Materials Ltd.	28,180	380,430
		<u>\$ 2,112,930</u>

COMMON STOCKS (Continued)

	Number of Shares	Market Value
PETROLEUM AND PIPELINES (8.38% of total assets)		
Atlantic Richfield Co.	5,000	\$ 462,384
Home Oil Co. Ltd. "A"	3,000	94,500
Home Oil Co. Ltd. "B"	3,000	93,000
Pennzoil United Inc.	6,750	249,143
Pennzoil United Inc. Conv. Pref.	12,000	624,923
		<u>\$ 1,523,950</u>
PRINTING AND PUBLISHING (6.45% of total assets)		
British American Bank Note Co. Ltd.	15,000	\$ 315,000
Moore Corporation Ltd.	12,000	448,500
Sun Publishing Co. Ltd., Class "A"	10,000	410,000
		<u>\$ 1,173,500</u>
MISCELLANEOUS (0.07% of total assets)		
Sundry securities		<u>\$ 12,800</u>
TOTAL COMMON AND CONVERTIBLE PREFERRED SHARES		<u>\$17,942,979</u>

SUMMARY

		% of Net Assets
PREFERRED SHARES	\$ 255,281	1.40%
COMMON AND CONVERTIBLE PREFERRED SHARES	17,942,979	98.68
CASH AND CASH ITEMS (NET)	(15,482)	(0.08)
TOTAL ASSETS (before deducting bank loan of \$1,000,000)	<u>\$18,182,778</u>	<u>100.00%</u>

DOMINION-SCOTTISH INVESTMENTS LIMITED

Ten-Year Financial Summary

Year Ended Dec. 31	Gross Income	Interest	Other Expenses	Income Taxes	Net Income	Total Net Assets	Funded Debt and Preference Shares*	Available for Common Shares*	Asset Value per Common Share
1960	\$319,494	51,185	36,419	17,000	214,890	8,360,966	3,428,430	4,932,536	9.21
1961	359,103	51,798	36,624	16,000	254,681	10,039,031	3,428,430	6,610,601	12.34
1962	369,870	51,927	37,229	10,000	270,714	10,458,791	4,650,000	5,808,791	10.85
1963	403,080	50,714	36,383	10,700	305,283	11,518,886	4,650,000	6,868,886	12.84
1964	449,532	80,446	35,558	10,700	322,828	13,568,928	5,150,000	8,418,928	15.74
1965	585,728	81,398	46,707	23,000	434,623	17,135,930	5,150,000	11,985,930	16.80
1966	637,736	81,055	50,328	22,000	484,353	15,625,561	5,150,000	10,475,561	14.69
1967	629,557	80,747	50,356	23,000	475,454	17,438,583	5,150,000	12,288,583	17.23
1968	545,571	83,456	64,254	33,000	364,861	21,496,005	5,150,000	16,346,005	22.92
1969	503,543	106,119	91,190	32,000	274,234	17,182,778	3,150,000	14,032,778	19.68

* Preference shares at redemption price of \$52.50.

